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SIPDIS

FOR THE SECRETARY FROM AMBASSADORS WOOD AND CROCKER

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TAGS: [PREL](#) [PGOV](#) [EAID](#) [ECON](#) [SENV](#) [IZ](#) [SW](#)

SUBJECT: SCENE-SETTER FOR THE SECRETARY'S MAY 28-30 VISIT
TO SWEDEN AND INTERNATIONAL COMPACT WITH IRAQ CONFERENCE

Classified By: Ambassador Michael M. Wood for reasons 1.4 (b) and (d).

[¶1.](#) (U) This is a joint Embassy Stockholm/Embassy Baghdad message.

SWEDEN

[¶2.](#) (C) Madame Secretary, welcome to Sweden. You are the first sitting Secretary of State to visit Stockholm since Lawrence Eagleburger in 1992. The occasion is historic: Sweden's hosting of the first post-Saddam meeting on Iraq to be held in Europe. It marks a new era in Europe's relationship with Iraq. Hosting the ICI conference represents a major political and financial commitment for the Swedish government. In meetings with Reinfeldt and Bildt, you will have opportunities to thank them. We recommend you also thank them for heading a PRT in Afghanistan, preview priorities for Sweden's EU presidency the second half of 2009 -- including climate change -- and urge Sweden to make a contribution to the Clean Tech Fund.

Reinfeldt's Government

[¶3.](#) (C) Prime Minister Reinfeldt leads a four-party center-right governing coalition that, in 2006, turned out the Social Democrats who had governed Sweden for most of the 20th century. The jockeying has already begun for the next parliamentary elections taking place in 2010, with the governing coalition lagging the Social Democrats. The focus will remain on economic and job issues, although immigration will also be on the docket. Most foreign policy issues, including NATO relations, are not on the front burner. Sweden is a strong NATO partner, with troops under NATO command in Kosovo and in Afghanistan, where Sweden has 365 troops and leads a PRT. Reinfeldt has made clear that NATO membership is not on the agenda for this electoral period and would only be considered after 2010 if the Social Democrats joined a broad consensus in favor.

[¶4.](#) (C) Reinfeldt has presided over a sea-change in our bilateral relations, and your visit to Sweden is seen here as one of the benefits of this change. Reinfeldt routinely defers to Bildt on foreign policy issues. Following Bildt's September 2007 trip to Iraq, Bildt said there was "a real national and European interest in a stable and democratic Iraq," adding that he believed "that the UN and the EU have a more important role to play than we have seen so far." The decision for Sweden to host the ICI was taken thanks to Bildt, and over internal objections within the MFA and the Swedish International Development Agency (SIDA). Several retired Swedish diplomats have asserted that in hosting the conference Sweden is legitimizing a U.S. "war of occupation," but the media and the leading opposition parties seem to be withholding judgment until they see how it actually turns out. We should thank Reinfeldt and Bildt -- and ask them to do more. Sweden's foreign policy is assistance-driven, and they can step up efforts in Iraq, putting a national flag on

key projects, as well as fostering broader involvement and greater contributions from the EU and the UN.

15. (C) Sweden holds the EU Presidency during the last half of 2009, and intends to focus on climate issues. Sweden agrees with us on tightening U.S./EU positions in the UNFCCC negotiations, and advocates two goals for the COP-14 meeting in Poznan: agreement on a longer-term (2050) aspirational goal; and financing technology transfer, e.g., Clean Tech Fund. Reinfeldt's office has indicated that he will raise climate change during your May 29 meeting. Sweden strongly supports the Kyoto Protocol, and cap and trade schemes for limiting emissions, but recognizes that an effective post-2012 agreement will require that the U.S. and China both participate. Reinfeldt recently visited China and Japan and urged both to support the next international climate change agreement.

One Big Thing, Alternative Energy Cooperation

16. (C) My focus as Ambassador has been on cooperating with Sweden to achieve a breakthrough in alternative energy -- an effort that resonates here and has become positively branded as One Big Thing. This cooperation has yielded many benefits, including a USD five million investment by the Defense Advanced Research Projects Agency (DARPA) in a promising Swedish biofuel technology, the creation of a new Fulbright Professor position in alternative energy technology, and increased U.S. private capital investment in Sweden's green technology sector. In June 2007, we signed a bilateral Science and Technology cooperation agreement that has become a framework for identifying promising alternative

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energy projects in both countries and matching them with U.S. or Swedish government funds. Alternative energy cooperation has also had a halo effect, changing the tone of the conversation and making it easier for the Swedish government to cooperate with the U.S. on other issues, such as Iraq.

17. (C) We should take the opportunity to seek broader cooperation with the Swedes on climate change, which is at the top of their agenda and where they can also be a positive influence within the EU, the UN, and elsewhere. I recommend asking Prime Minister Reinfeldt to have Sweden contribute to the Clean Tech Fund.

The Swedish Connection to Iraq

18. (C) Sweden has a connection with Iraq -- over one percent of Sweden's population of 9.1 million are Iraqis. Of these more than 100,000 Iraqis, nearly 19,000 of them arrived as asylees in 2007, representing about half of all Iraqis who immigrated to Europe that year. This has led to criticism of the U.S. for allegedly causing and then not doing enough about the refugee problem, and of other European nations for not taking in more refugees. Foreign Minister Bildt's visit to Baghdad in September 2007 led to an agreement with Iraq on repatriation, although repatriations are just a tiny fraction of the total number of asylees. Some Iraqi-Swedes who represent an earlier generation of refugees from Saddam's regime have returned to Iraq voluntarily; the Swedes tell us they hear much Swedish spoken in the Kurdish areas. Iraqi Foreign Minister Zebari has relatives in Sweden. Sweden seeks to foster reconstruction efforts by the EU and UN that will make return more attractive. Sweden has preparations underway to open an embassy in Baghdad by August/September.

IRAQ

Political Climate in Iraq

19. (S) PM Maliki is still riding high following security operations in Basra and Sadr City, in which he was able to claim success in forcefully confronting the Jaysh al-Mahdi and the Sadrist Trend (and by extension, Iran). While the

realities are far more complex, Maliki's image as a strong and nationalist leader has been burnished, resulting in new-found support from the majority of Iraq's other political party leaders. The PM continues to trade on this new positive atmosphere, recently launching an operation against extremists in Mosul and pushing to secure Baghdad from armed Shia militias. He is also working to capitalize on slowly warming relations with Turkey and the Arab neighbors, who fear growing Iranian influence in the region. Despite an incipient sense of optimism, many challenges remain to ensure effective national governance.

¶10. (S) Maliki has yet to return the Sunni Tawafuq bloc and others to his government, leaving 17 of 36 ministries with Acting Ministers. The Executive Council ("3-plus-1"), including the 3 Presidency Council members and Maliki, has met only sporadically and has yet to formalize a secretariat, by-laws, or a list of key objectives drafted in January. Nevertheless, continued support by the Kurdish bloc allows Maliki to continue operating as normal, focusing foremost on security issues. Focus in Parliament has turned to passage of an elections law, a hydro-carbons framework law, and internally disputed boundary issues. Recent passage of a national budget, a De-Baathification law, and a general amnesty have buoyed the political process somewhat, though implementation issues remain contentious. In all, as PM Maliki heads to Stockholm, he will be able to convey some encouraging news on the home front, despite many enormous remaining problems to be addressed.

Progress on ICI Benchmarks...

¶11. (U) Much work remains to be done to transition Iraq to a fully secure, democratic country enjoying a functioning market-based economy. But the GOI has made substantial progress across many reform areas captured in the ICI's Joint Monitoring Matrix (JMM). In Stockholm they will report progress on internal reconciliation, noting in particular the creation of a new National Commission for Reconciliation and Dialogue, and passage of the de-Baathification law. They will point to PM Maliki's successes generating government wide consensus against militias as an example of promoting reconciliation. They can rightly point to stepped up international engagement over the last year, with Iraq-related "Neighbors" meetings garnering good attendance, the opening of the OIC office in Baghdad, and the convening in Irbil of the Arab Parliamentary Union conference.

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Unfortunately, no Gulf Cooperation Council states have yet established Embassies here, despite numerous high level approaches from the GOI and USG. In addition, the GOI has made progress in developing new structures for the Defense and Interior ministries, but progress professionalizing those services has been slow.

¶12. (U) On the economic front, Iraq can point to a number of solid advances, despite obvious setbacks such as the assassination of the Finance Ministry DG responsible for budgeting, and the burning of the Iraqi Central Bank. Advances can be noted in monetary policy - the Central Bank has brought core inflation down from 63 percent in 2006 to about 12 percent today. Capital budget execution improved throughout 2007, reaching at least 63 percent by the end of the year, versus 22 percent executed in 2006. The GOI managed the greatly improved 2007 execution rate despite facing obstacles such as imposing an IMF-compliant Chart of Accounts half way through the year and the continued absence of the comprehensive financial management tool (the Financial Management Information System -FMIS) which was put on the back shelf when contractors implementing it were kidnapped from the Ministry of Finance in early 2007. (Note: The project was revived earlier this year by USAID and could be ready to go live for all government transactions by the end of the year. End Note.) The GOI is making progress developing plans for careful, phased reform of the Public

Distribution System which provides most of the food and basic commodities for poorer Iraqis. Oil revenues are up with record-high world prices, which will give Iraq a budgetary cushion to continue to step up its reconstruction while reforming the hangover of state subsidies from the Saddam era.

...Despite Tenuous Support for the ICI Across the GOI

¶13. (C) We like to say that the ICI is an "Iraqi owned and operated process." However the reality on the ground is that support for, and even understanding of the ICI within the GOI is spotty at best. Many Iraqi government officials, when they know anything at all about the ICI, simply view it as another donor mechanism. As a result, for these people buy-in to the ICI is contingent on the ICI continuing to provide financial benefits for Iraq. In our efforts to broaden GOI support for the ICI, rather than focusing on additional donor pledges, we have worked with the GOI to use the debt reduction commitments reiterated at the Sharm el-Sheik meeting in May 2007 to generate further debt relief agreements. Looking down the road, as more countries reach such debt relief agreements we will need to demonstrate that the ICI continues to provide utility to the GOI by ensuring that foreign support for necessary Iraqi reforms is directed at Iraqi priorities, as reflected in their National Development Strategy, and that it makes most efficient use of donor resources.

¶14. (C) To date, the Maliki government has not provided the ICI structures with the level of support needed to ensure that the GOI can fully live up to its ICI-related commitments. Symptomatic of this is the incomplete institutionalization of the ICI Secretariat, which is currently a part of DPM Barham Salih's office. The Secretariat remains hampered by limited personnel -- only seven of a planned complement of 42 have been assigned; two seconded from other offices. The Secretariat's current office space is in a trailer adjacent to the parking lot of the DPM's main office. Only one of three proposed internationally funded advisors has been deployed, primarily because local UNAMI staff (correctly) seek to encourage the GOI to take real ownership of the ICI processes. Notwithstanding that, the single UN-funded advisor drafted the entire Annual Report, with inputs from the donor community after a series of meetings convened by UNAMI in January, complemented by limited inputs from the GOI itself (see below). This does not reflect much progress in GOI ownership of the process since last July, when a local World Bank staffer drafted virtually the entire mid-term report.

¶15. (C) Many of Iraq's needed reforms are reflected in the benchmarks of the ICI Joint Monitoring Matrix (the JMM). Yet the political and personal rivalries that slow or block progress in so many areas of Iraqi governance and reform are also reflected in poor GOI support for ICI structures and processes. The ICI Secretariat reports to DPM Barham Salih. However virtually all of the activities reflected in the JMM are implemented by other ministries. When Barham issued instructions in January 2008 for ministries to convene the ICI Thematic Working Groups (TWGs), to review progress and begin drafting the Annual Report on Progress, only two TWGs

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met. The critical economic reform TWG, chaired by Finance Minister Jabr, never met. By late March it was clear that the Ministries were not going to convene the TWGs, so an official at the Ministry of Planning and Development Cooperation (MOPDC) took the initiative to convene an informal inter-ministerial meeting to try to extract some useful information to inform the Annual Report. Yet we cannot count on the MOPDC for consistent support to the ICI, since it manages the current funding streams under the IRFFI trust funds. MOPDC staff at IRFFI meetings in Bari and Naples as recently as December 2007 downplayed the effectiveness of the ICI Secretariat and encouraged donors to

continue to use IRFFI mechanisms for their support.

¶16. (C) If the ICI is to succeed fully, a reinvigorated GOI effort to stand up effective ICI support structures will be necessary. It is not clear that the ICI Secretariat will ever be effective if it is located in DPM Barham Salih's offices. UNAMI Deputy Guy Siri told us recently that the UN will propose a "structural realignment" of the ICI within the GOI -- which we should support. The UN proposal is to embed the ICI Secretariat in the Council of Ministers' Secretariat (COMSEC). ICI Secretariat Dir. Dr. Hadi Hussein told us on May 14 that "the GOI does not support the UN's proposed structural alignment." It remains to be seen however whether that was simply a Barham staffer's view or if it is a considered GOI view.

WOOD